



RECEIVED

2008 MAY 23 PM 2: 07

IDAHO PUBLIC  
UTILITIES COMMISSION

**BARTON L. KLINE**  
Senior Attorney

May 23, 2008

Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
472 West Washington Street  
P. O. Box 83720  
Boise, Idaho 83720-0074

Re: Case No. IPC-E-08-07  
PCA

Dear Ms. Jewell:

Please find enclosed for filing an original and seven (7) copies of Idaho Power's Reply Comments regarding the above-referenced matter.

I would appreciate it if you would return a stamped copy of this transmittal letter to me in the enclosed self-addressed stamped envelope.

Very truly yours,

Barton L. Kline

BLK:cb  
Enclosures

DONOVAN E. WALKER ISB #5921  
BARTON L. KLINE ISB #1526  
Idaho Power Company  
P.O. Box 70  
Boise, Idaho 83707  
Phone: (208) 388-2682  
FAX: (208) 388-6936  
[dwalker@idahopower.com](mailto:dwalker@idahopower.com)  
[bkline@idahopower.com](mailto:bkline@idahopower.com)

RECEIVED

2008 MAY 23 PM 2: 07

IDAHO PUBLIC  
UTILITIES COMMISSION

Attorneys for Idaho Power Company

Express Mail Address

1221 West Idaho Street  
Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION  
OF IDAHO POWER COMPANY FOR  
AUTHORITY TO IMPLEMENT POWER  
COST ADJUSTMENT (PCA) RATES FOR  
ELECTRIC SERVICE FROM JUNE 1, 2008  
THROUGH MAY 31, 2009

CASE NO. IPC-E-08-07

IDAHO POWER'S REPLY COMMENTS

Idaho Power Company ("Idaho Power" or "Company") submits the following Comments in response to the Comments filed by the Commission Staff and intervenors on May 20, 2008.

**1. Introduction**

These reply comments break into two general categories. First, Staff and all of the intervenors responded to Idaho Power's proposal for a one-year deviation from the standard 90%/10% sharing of excess power supply costs. These Comments will

address that issue comprehensively as the arguments and analyses presented by Staff and the intervenors are very similar.

Issues unrelated to the one-year deviation proposal are addressed separately.

## **2. Proposed One-Year Deviation from the 90%/10% Sharing Arrangement**

In its Application, Idaho Power proposed a one-year deviation from the usual 90%/10% sharing provisions of the PCA. The Company proposed that 100 percent of the deviations in non-PURPA power supply expenses be recovered from or returned to customers in the coming year. The current streamflow forecast is for slightly above-normal runoff at Brownlee, which would correlate to an expectation of below-normal power supply expenses and a reduction in customer rates to recover power supply expenses.

Staff and all the intervenors opposed the Company's proposal. The reason is simple. Even with an expectation of above-normal streamflows, all the parties, including the Company, have an expectation that power supply expenses will not be below-normal in the coming year and as a result, next year's true-up calculations will require customers to pay additional amounts.

With that background, the Company still believes that its proposed one-year deviation has merit for the following reasons:

(a) The PCA is not currently providing symmetry.

One of the principal tenets supporting the use of the PCA for ratemaking is the assumption that over time there will be reasonable symmetry of power supply expenses at levels either above or below base levels established in general rate cases. However, with the occurrence of the prolonged period of drought, that southern Idaho

has experienced over the past 7 years described in Mr. Said's testimony, that expected symmetry has not occurred. As a result, the Company has been unable to recover its prudently incurred power supply expenses on a continuous basis during the prolonged period of drought. Mircron refers to those unrecovered power supply expenses as "PCA losses" incurred by the Company at 10 percent and by customers at 90 percent. (Micron Comments, p. 2) Such a characterization is inaccurate. Idaho Power has incurred 100 percent of the power supply expenses needed to serve on behalf of its customer loads. Customers have only been required to pay 90 percent of the actual cost the Company incurred to serve their loads. The Company is the only "loser." During the current prolonged drought, customers have received a consistent 10 percent discount on the additional costs the Company incurred to serve their electric requirements.

The problem goes even deeper. Even without a drought, if base level power supply expenses are set artificially low, the expectation of symmetrical distribution of power supply expenses at levels above or below base levels is frustrated. For these reasons, in considering whether the one-year deviation proposed by the Company is reasonable, the Commission should not ignore the question of whether or not the PCA has fulfilled the expectation that it would be symmetrical over time. If that expectation has not been met, how can the rates provided by the PCA be just, reasonable, and sufficient as required by Idaho Code § 61-502?

- (b) The 90%/10% sharing ratio is only one of several “incentives” placed on the Company.

In their Comments, Staff and the intervenors all remind the Commission that the 90%/10% sharing arrangement provides the Company with an incentive to prudently manage its power supply expenses. While the Company acknowledges the laudable purpose of the sharing arrangement, it is important for the Commission to remember that the Company has multiple “incentives” to act prudently.

Micron correctly notes in its Comments that Idaho Power is legally required to establish its rates, charges, rules, and regulations so that they are “just and reasonable.” (*Idaho Code* § 61-301 and § 61-303.) If Idaho Power does not manage its power supply expenses in a prudent matter, the Commission has the legal authority to require the Company to do so. This is the principal incentive for the Company to manage its power supply expenses prudently.

In light of the above-referenced provisions of Idaho law, the 90%/10% sharing arrangement actually provides an additional incentive to manage power supply expenses in a prudent manner.

In addition to the above-described incentives, the Company’s risk management policies are another process implemented to further ensure that the Company makes prudent power purchase decisions. Hedging activity that occurs as a result of the risk management policy is not reflected in base rates. As Mr. Said explained in his testimony, such hedging activity, which is governed by procedures adopted by the Commission in accordance with Order No. 29102 issued in Case No. IPC-E-0-16, is prescriptive in nature and thus is more akin to purchases from PURPA projects than it is

to non-firm purchases of power the company makes to optimize the economics of system operations. Deviations in PURPA purchase expenses are tracked at 100 percent in the PCA and similarly the Company's hedging activity should be tracked at 100 percent.

The DOE states in its comments that "the Company has not presented anything which would indicate that the Commission's approved risk management policy is so unsatisfactory as to justify the one issue ratemaking that the requested waiver would demand." (DOE Comments, p. 3.) The DOE misses the point. The Company does not contend that the risk management policy is unsatisfactory. Applying the 90%10% PCA "incentive" to risk management policy-driven power supply expense when the Company has little or no discretion as to whether or not to incur such expense is what is unsatisfactory.

(c) The effect of QF Contract Performance on the PCA needs further review.

The DOE suggests that the Company should have known that PURPA wind projects would not come on-line in the time frames stated within their contracts. The Industrial Customers of Idaho Power ("ICIP") asserts that Idaho Power is itself responsible for PURPA wind projects not coming on-line in the time frames stated within their contracts. Neither of these parties raised concerns in the general rate case about the assumption that these resources would be available in 2007. The reason for their prior silence is evident. The inclusion of these PURPA wind projects as 2007 resources resulted in lower power supply expenses than would have occurred in their absence. Now that these projects have not lived up to their contracts, the DOE and the

ICIP believe it is fair that customers be shielded from 10 percent of the cost to replace the power from PURPA projects that did not fulfill their contractual obligations.

Idaho Power respectfully submits that, at this juncture, assessing blame and finger pointing is not productive. In fact, neither the DOE nor the ICIP addressed the real problem with the PCA exposed by the failure of the PURPA wind developers to perform their contracts in a timely fashion. This situation demonstrates how the current PCA methodology can shift risk and expense in an arbitrary and capricious manner. At a minimum, it provides additional support for the recommendations that the PCA methodology should be reviewed in a workshop setting.

### **3. Base Power Supply**

The Commission Staff recommended an adjustment to levelize and redistribute base power supply expenses included in PCA true-up computations in order to address PCA true-up computational effects on the Company's quarterly earnings. The Company appreciates the Staff proposal because it will provide for quarterly earnings that more closely align with financial operating results. While the Staff proposed that the monthly shape of power supply expenses included in the base level for deferral purposes be a flat distribution with each month equal to 1/12 of the annual power supply expenses, the Company would propose a slightly different approach. Idaho Power recommends distribution of the annual power supply expenses to months based upon the 2007 monthly normalized loads of the Company. This would match the monthly shape of power supply expenses to the monthly shape of revenues resulting from normalized loads. If this tweak to the Staff recommendation is not viewed

positively by the Commission, the Company would certainly view the Staff recommendation as appropriate for implementation.

#### **4. Rate Phase-In**

The Industrial Customers of Idaho Power ("ICIP") recommends that the current year's PCA expense be deferred and recovered in three equal annual installments. ICIP reminds the Commission that in its 1993 Order (Order No. 24806), the Commission retained the right to spread PCA expenses over a period longer than one year. No other party has suggested a rate phase-in.

Idaho Power believes there are a number of reasons why the Commission should resist ICIP's invitation to mute the price signal sent by the PCA. For background, it should be noted that in 1992, when the Commission was originally considering the PCA mechanism, the ICIP suggested the use of deferral accounting to minimize rate changes from year to year. (Order No. 24806, pp. 7-8.) In Order 24806, the Commission decided not to adopt the deferral approach proposed by the ICIP but instead to utilize a forecast-based PCA with a true-up. (Order No. 24806, p. 8.) In its Order, the Commission explained that one of the benefits of a PCA was to "most closely match costs to the time period in which they are incurred. This sends the more appropriate price signals to ratepayers." (Order No. 24806, p. 8.) The Commission further noted in its Order that use of deferral accounting for PCA expenses means that customer rates would not be adjusted until several years after the costs which caused the adjustment had been incurred. (Order No. 24806, p. 8.) Idaho Power believes that this reasoning remains valid today and ICIP's recommendation should not be accepted by the Commission.

Idaho Power concurs with one portion of ICIP's suggestion in this regard. ICIP notes in its Comments that the bulk of the PCA expense for which it is requesting deferral arises out of the true-up portion of the PCA. What this suggests to Idaho Power is that the current method for forecasting power supply expenses has not kept up with changes in the market for wholesale power and, as a result, PCA rates do not reflect today's reality. Idaho Power believes that the forecasting methodology is also an appropriate subject for the PCA workshop.

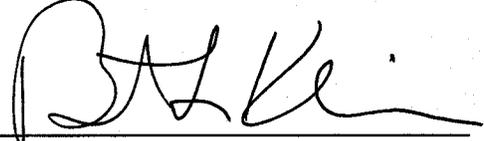
## **5. Conclusion**

The Commission Staff and the Idaho Irrigation Pumpers Association ("Irrigators") appear to have given the question of a one-year deviation in PCA methodology the most thought. While they both recommend rejection of the Company proposal, they also suggest that the question of PCA expense-sharing ratios be discussed further in workshops to be held following this case. Staff acknowledged in its Comments that a number of the issues raised in the Company's PCA filing present legitimate questions that can best be addressed and resolved in a workshop setting rather than trying to resolve them in either an abbreviated PCA proceeding or in a general rate case. In the last general rate case, the parties to the settlement agreed that the load growth adjustment rate (LGAR) issue could be most effectively addressed in a workshop setting. It seems logical that consideration of the other PCA related issues raised in the Comments in this case be merged into the LGAR workshops to allow a comprehensive review of the entire PCA mechanism.

The Company continues to believe that a one-year deviation from the 90%/10% sharing provisions of the PCA as supported by Mr. Said's testimony in this case is both

fair and appropriate. The Company also strongly urges the Commission to adopt the Staff's and the Irrigators' suggestion to establish a workshop process to consider prospective adjustments to the PCA methodology.

Respectfully submitted this 23<sup>rd</sup> day of May, 2008.

A handwritten signature in black ink, appearing to read 'B L Kline', written over a horizontal line.

BARTON L. KLINE  
Attorney for Idaho Power Company

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 23<sup>rd</sup> day of May 2008, I served a true and correct copy of the within and foregoing document upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff  
Donald L. Howell, II  
Deputy Attorney General  
Idaho Public Utilities Commission  
472 West Washington (83702)  
P.O. Box 83720  
Boise, ID 83720-0074

Hand Delivered  
 U.S. Mail  
 Overnight Mail  
 FAX  
 Email [don.howell@puc.idaho.gov](mailto:don.howell@puc.idaho.gov)

**Industrial Customers of Idaho Power**  
Peter J. Richardson, Esq.  
Richardson & O'Leary  
515 N. 27<sup>th</sup> Street  
P.O. Box 7218  
Boise, ID 83702

Hand Delivered  
 U.S. Mail  
 Overnight Mail  
 FAX  
 Email [peter@richardsonandoleary.com](mailto:peter@richardsonandoleary.com)

Don Reading  
Ben Johnson Associates  
6070 Hill Road  
Boise, ID 83702

Hand Delivered  
 U.S. Mail  
 Overnight Mail  
 FAX  
 Email [dreading@mindspring.com](mailto:dreading@mindspring.com)

**Idaho Irrigation Pumpers Association, Inc.**  
Eric L. Olsen  
Racine, Olson, Nye, Budge & Bailey  
P.O. Box 1391  
201 E. Center  
Pocatello, ID 83204

Hand Delivered  
 U.S. Mail  
 Overnight Mail  
 FAX  
 Email [elo@racinelaw.net](mailto:elo@racinelaw.net)

Anthony Yankel  
29814 Lake Road  
Bay Village, OH 444140

Hand Delivered  
 U.S. Mail  
 Overnight Mail  
 FAX  
 Email [tony@yankel.net](mailto:tony@yankel.net)

**Micron Technology**

Conley Ward  
Givens Pursley  
601 W. Bannock Street  
P.O. Box 2720  
Boise, ID 83701

Hand Delivered  
 U.S. Mail  
 Overnight Mail  
 FAX  
 Email [cew@givenspursley.com](mailto:cew@givenspursley.com)

Dennis E. Peseau, Ph.D.  
Utility Resources, Inc.  
1500 Liberty Street SE, Suite 250  
Salem, OR 97302

Hand Delivered  
 U.S. Mail  
 Overnight Mail  
 FAX  
 Email [dpeseau@excite.com](mailto:dpeseau@excite.com)

**Department of Energy**

Lot Cooke  
Arthur Perry Bruder  
Office of the Attorney General  
United States Department of Energy  
1000 Independence Ave., SW  
Washington, DC 20585  
Routing Symbol GC-76

Hand Delivered  
 U.S. Mail  
 Overnight Mail  
 FAX  
 Email [lot.cooke@hq.doe.gov](mailto:lot.cooke@hq.doe.gov)  
[arthur.bruder@hq.doe.gov](mailto:arthur.bruder@hq.doe.gov)



---

BARTON L. KLINE